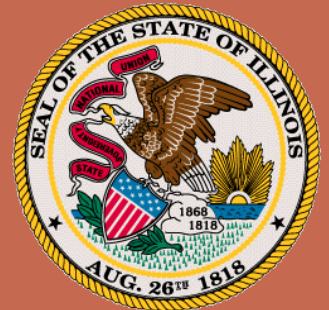


STATE OF ILLINOIS

PRESENTATION TO THE
SOCIETY OF MUNICIPAL ANALYSTS

STATE OF ILLINOIS
EXECUTIVE OFFICE OF THE GOVERNOR
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET



PRESENTATION PARTICIPANTS

■ GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

- Tim Nuding, *Director of Governor's Office of Management and Budget*
- Kim Fowler, *Chief Legal Counsel*
- Alexis Sturm, *Deputy Director for Debt, Capital, and Revenue*
- Kelly Hutchinson, *Director of Capital Markets*

ILLINOIS IS A STATE OF DIVERSIFIED ECONOMIC STRENGTH

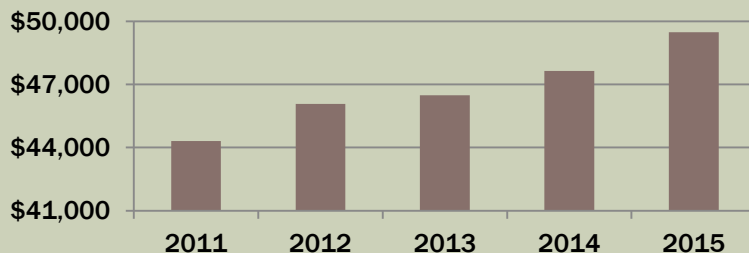
- Workforce composition mirrors that of the U.S.
- Per Capita Income remains above the national average

2015 Non-Agricultural Payroll Jobs by Industry



Source: U.S. Department of Labor, Bureau of Labor Statistics

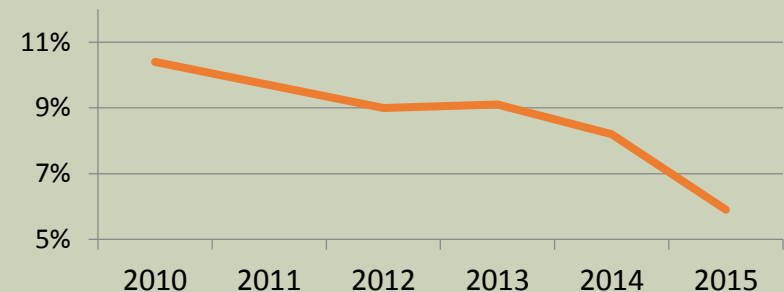
Per Capita Income



Source: U.S. Department of Commerce, Bureau of Economic Analysis, April 2016

- Unemployment declining along with national trends
- Serves as a transportation hub and is home to 34 Fortune 500 headquarters

Unemployment Rates (Not Seasonally Adjusted)



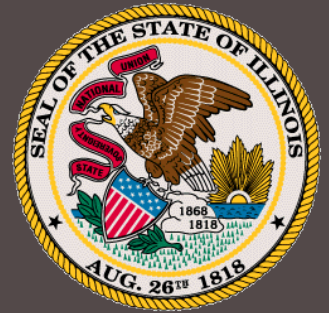
Source: U.S. Department of Labor, Bureau of Labor Statistics

A State of Headquarters



Source: Fortune.com/fortune500

ILLINOIS' GENERAL FUNDS



ILLINOIS' GENERAL FUNDS REVENUE STRUCTURE

- Illinois' General Funds support the basic operations of Illinois' State government and provide significant revenue towards the repayment of Illinois' general obligation bonds.
 - Individual and corporate income taxes, sales taxes and federal revenues are the primary revenue sources.
 - As of January 1, 2015 individual income tax rates are currently set at 3.75% and corporate income tax rates are currently set at 5.25%. The bulk of income taxes are deposited into the General Funds after a set aside to pay income tax refunds.
 - The State sales tax rate is set at 6.25%, with the State keeping 5.0% and paying the remaining portion to local governments. Most of the sales tax is deposited into the General Funds after a few set asides into other State funds, including repayment of Build Illinois bonds.
 - Federal revenues into the General Funds primarily come from reimbursement of State payments for Medicaid services.

General Funds Revenue History				
\$ millions	Actual FY 2012	Actual FY 2013	Actual FY 2014	Actual FY 2015
Individual Income Taxes	\$15,512	\$16,538	\$16,642	\$15,433
Corporate Income Taxes	2,461	3,177	3,164	2,686
Sales Tax	7,226	7,355	7,676	8,030
All Other State Sources	3,051	3,151	3,231	3,427
Total State Sources	\$28,250	\$30,221	\$30,713	\$29,576
Federal Sources	3,682	4,154	3,903	3,331
Transfers In ¹	1,865	1,953	2,152	2,981
Total Resources	\$33,797	\$36,328	\$36,768	\$35,888

¹ Cash basis transfers and excludes transfers from the Budget Stabilization Fund & \$454 million interfund borrowing in FY 15

ILLINOIS' GENERAL FUNDS BASE EXPENDITURES

- Illinois' General Funds base spending totaled \$35.3 billion in FY15.
- General funds spending went primarily to elementary and secondary education, Medicaid spending at the Department of Healthcare and Family Services (DHFS), and pensions.
- General Funds spending for pensions totaled \$6 billion in FY15.

General Funds Expenditures History by Major Agency (from current year appropriations)				
\$ millions	Actual FY 2012	Actual FY 2013	Actual FY 2014	Actual FY 2015
State Board of Education	\$6,739	\$6,539	\$6,681	\$6,545
Healthcare & Family Services ¹	8,158	6,726	7,292	6,525
Higher Education (incl. retirement)	2,844	3,234	3,303	3,291
Human Services	3,415	3,448	3,217	3,363
Corrections	1,210	1,172	1,276	1,310
Central Management Services ¹	75	1,481	1,513	1,608
Teachers Retirement	2,494	2,790	3,529	3,479
Transfers Out	4,259	4,942	5,222	4,583
All Other Agencies	4,274	4,903	4,668	4,642
Base General Funds Expenditures	\$33,468	\$35,235	\$36,701	\$35,346

¹ State employee health insurance payments were moved from DHFS to CMS in FY13.

FY15 BUDGETARY BASIS RESULTS

- FY15 results reflect a \$1.031 billion improvement in the General Funds budgetary balance.
- FY15 State General Funds base operating revenues and transfers in totaled \$35.9 billion.
- The state interfund borrowed \$454 million in FY15 that under current statute must be repaid by 12/31/16.
- FY15 operating expenditures and transfers out totaled \$35.3 billion.
- Transfers to other State funds included \$2.09 billion to the General Obligation Bond Retirement and Interest (GOBRI) Fund.

FY 15 Actual Results	
\$ millions	FY15 Actuals
Base Resources	
State Sources	\$ 29,576
Transfers In*	\$ 2,981
Total State Sources	\$ 32,557
Federal Sources	\$ 3,331
Total Resources	\$ 35,888
Total Operating Budget	\$ 30,775
Statutory Transfers Out	\$ 2,489
Debt Service	\$ 2,094
Total Transfers	\$ 4,583
Total Expenditures*	\$ 35,358
Interfund borrowing/IOC Adjustments	\$ 501
General Funds Surplus (Deficit)	\$ 1,031

Source: Illinois Office of the Comptroller

*Expenditures reflect prior year adjustments of \$12 million.

END OF YEAR OUTSTANDING BILLS

- Illinois reduced its General Funds Budget Basis Accounts Payable in FY15 by \$538 million to \$3.521 billion, the third successive year of reduction.
- General Funds “Section 25” bills – essentially current year bills that are paid for with future year appropriations – decreased in FY13, FY14, and FY15.

End of Fiscal Year General Funds Accounts Payable					
\$ millions	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
General Funds Budget Basis Accounts Payable ¹	\$4,976	\$5,024	\$4,142	\$4,005	\$3,521
General Funds Section 25 Liabilities ²	1,604	2,778	1,864	1,622	1,598
Total General Funds Accounts Payable	6,580	7,802	6,006	5,627	5,119
Section 25 Liabilities - Other State Funds	237	850	489	429	315

Source: Illinois Office of the Comptroller.

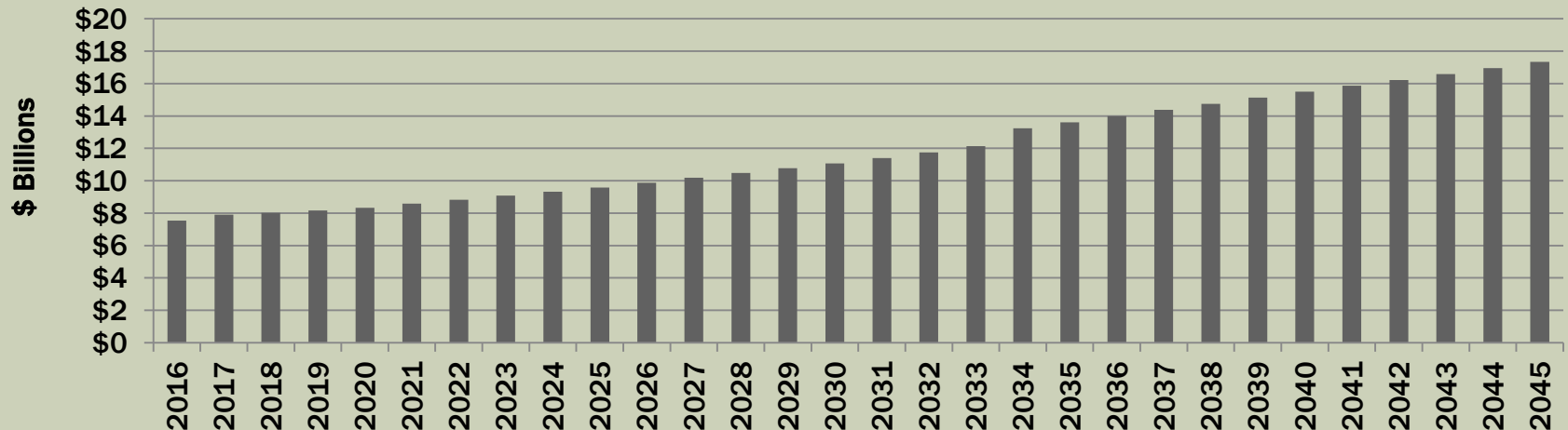
¹ This amount consists of General Funds Lapse Period Transactions as reported in the Traditional Budgetary Financial Report.

² Section 25 Liabilities are incurred in one fiscal year and payable from future fiscal year appropriations. This amount is the General Funds portion of Section 25 liabilities.

PENSION UPDATE¹

- Actuarial Assets as of FY15 are \$78.1 billion.
- Pensions are currently funded at 40.9% as of FY15 based on the asset smoothing method and 41.9% using asset market value.
- Despite a lack of the FY16 budget, the continuing appropriations have been established to allow the Retirement Systems to continue to voucher payments for the State's contribution. The Comptroller is making payments as cash is available.
- The FY17 pension appropriation is estimated at \$7.91 billion.

Projected State Pension Contributions



¹The Commission on Government Forecasting and Accountability. November 2015.

FY 2016 UPDATE



FY 2016 REVENUE UPDATE

FY 2016 Revenue Estimates

- Under current statutes, total General Funds revenues for FY2016 Estimated Budget are projected to be \$31,712 million, a reduction from FY2015 base revenues of \$4,176 million (11.6%)
- Current forecast does not include an estimate for transfers of excess balances from other state funds as occurred in fiscal year 2015.
- Individual income tax performance has been stronger than estimated.
- Sales tax estimates were lower than initial estimates as the decrease in gasoline prices has translated into lower revenues this fiscal year.
- Federal revenue estimates have been reduced, but the final amount will depend on the timing of payments released by the Comptroller.

FY2016 General Funds Estimated Revenues – Feb. 2016

	FY 15 Actual	FY16 Revised Estimate
Base Resources		
State Sources: Revenues		
Individual (gross)	17,682	14,644
Refund Fund Deposit	(1,768)	(1,428)
Education/Human Services Funds set aside	(480)	(881)
Net Individual Income Taxes	15,433	12,335
Corporate (gross)	3,129	2,690
Refund Fund Deposit	(439)	(409)
Education/Human Services Funds set aside	(4)	(6)
Net Corporate Income Taxes	2,686	2,275
Sales Taxes	8,030	8,140
Public Utility Taxes	1,006	977
All Other Sources	2,421	2,168
Total State Sources: Revenues	29,576	25,895
State Sources: Transfers In		
Lottery	678	692
Riverboat Gaming Taxes	292	271
Other Transfers	727	693
Fund Reallocations	1,284	-
Total State Sources	32,557	27,551
Federal Sources	3,331	4,161
TOTAL RESOURCES	35,888	31,712

FY 2016 ESTIMATED GENERAL FUNDS EXPENDITURES

Expenses

- FY2016 Estimated Budget projects that General Funds spending will total \$36,084 million, an increase of \$726 million(2.1%) from FY2015.
- Estimated pension contributions total \$6.6 billion.
- Estimated transfers to other state funds total \$4.6 billion, including \$2.13 billion to the General Obligation Bond Retirement and Interest (GOBRI) Fund.
- These estimates reflect the best estimate of current trends of General Funds spending but would need additional appropriation authority for all the payments to be made.
- The estimated spending reflects the Governor's introduced level of higher education spending.
- Spending estimates reflect the General Funds budget management steps that were put into place this fiscal year.

	FY 15 Actual	FY16 Current Estimate ¹
EXPENDITURES		
Education	8,504	8,144
K-12 Education	6,555	6,572
Higher Education	1,950	1,572
Economic Development	104	48
Public Safety	1,619	1,617
Human Services	5,407	4,871
Healthcare	7,178	7,496
Environment and Culture	67	54
Government Services	2,873	2,857
Group Health Insurance	1,565	1,650
Government Services	1,308	1,207
Pensions	6,046	6,632
K-12 Education Pensions	3,413	3,743
State Universities' Pensions	1,347	1,411
State Employees' Pensions	1,286	1,477
Unspent Appropriations (Salvage)	(1,024)	(251)
TOTAL RESOURCES	30,774	31,469
Statutory Transfers Out	2,489	2,486
Debt Service: Capital & Pension Bonds	2,094	2,129
Total Additional Expenditures	4,583	4,615
TOTAL EXPENDITURES	35,358	36,084

¹ Estimated expenditure is the amount currently estimated by GOMB based on current patterns. Additional appropriations would need to be enacted to spend at this level.

FY 2016 ESTIMATED DEFICIT

- Absent any revenue or spending changes from the current path, the FY16 estimated General Funds deficit will total approximately \$4.4 billion.

State of Illinois Governor's Office of Management and Budget General Funds Financial Walk Down		
\$ millions	2015	Estimated 2016
Base Resources		
State Sources	\$29,576	\$25,895
Transfers In	2,981	1,656
Total State Sources	32,557	27,551
Federal Sources	3,331	4,161
TOTAL RESOURCES	\$35,888	\$31,712
Total Operating Budget		
Statutory Transfers Out	2,489	2,486
Debt Service: Capital & Pension Bonds	2,094	2,129
Total Transfers	\$4,583	\$4,615
TOTAL EXPENDITURES	\$35,358	\$36,084
Interfund borrowing and IOC Adjustments ¹	501	N/A
GENERAL FUND SURPLUS (DEFICIT)	\$1,031	(\$4,372)

¹ In FY15, Illinois interfund borrowed \$454 million that are not considered base revenues. IOC adjustments reflect budgetary adjustments in Traditional Budgetary Financial Report. These are only known when the TBFR is released.

FY 2016 UPDATES AND LEGISLATIVE ACTIONS

- As of today, Illinois has not enacted a full Fiscal Year 2016 Budget.
- Several appropriations bills have been enacted to fund specific items, including the following:
 - Funding for elementary and secondary education
 - Capital appropriations for the Illinois Department of Transportation
 - Certain federal revenues received by the State
 - P.A. 99-491 provided authorization for a full year's debt service on State Civic Center Bonds and to fund certain critical State operations costs
- Spring legislative proposals have been put forth to provide funding for specific areas such as higher education and human services.
 - The Governor has repeatedly indicated the need for funding to support these proposals.

FY 2017 BUDGET PROPOSAL



“Turnarounds are about changing direction.

From loss to growth.

From decline to expansion. From deficit to surplus.

For the economy.

For jobs.

For taxpayers.

For our children.

For our future.”

--Governor Bruce Rauner,
FY 2017 Budget Address,
February 17, 2016



FY 2017 BUDGET PROPOSAL

- On February 17, 2016, Governor Rauner put forth a fiscal year 2017 budget proposal that included not only recommendations for spending in 2017, but also included his vision for transforming state government and revitalizing Illinois' economy.
- The budget proposal focuses on spending in areas that are the state's core priorities and on transforming state government so that the taxpayers' dollars are spent in the most efficient way possible.
- The transformations include proposals to control the cost curve in criminal justice, health and human services, employee compensation and reduce costs for pensions, state employee health insurance, and the procurement of goods and services.
- Additional changes to the state's technology infrastructure, management of state grants, and revenue collections are also expected to contribute to managing state government costs.

STATE PENSIONS TRANSFORMATION

- The Governor pledged to work with Senate President Cullerton to enact 'consideration' pension reform legislation for current members. No savings from this plan are included in the FY17 budget proposal.
- In addition to these changes, the Governor proposed the following items expected to generate approximately \$750 million in General Funds savings in FY17 including:
 - Requiring school districts to pick up the pension cost of end-of-career wage spikes that exceed average growth rates in wages
 - Require universities and school districts to pick up marginal pension costs for very high-salaried employees
 - Smooth the impact of changes in actuarial assumptions enacted by retirement systems' boards over a 5-year period

FY 2017 REVENUE ESTIMATES

- General Funds revenues are estimated to total \$32,818 million for FY2017, a \$1,106 million increase, or 3.5%, from FY2016 revised estimates.
- This estimate reflects income tax rates remaining at current statutory levels with moderate growth rate assumptions.
- The estimate in the accompanying table also reflects an estimated \$200 million from the divestiture of the Thompson Center (JRTC) and \$275 million from delaying the repayment of the Budget Stabilization Fund (BSF) until the state is on better financial footing.

	FY 15 Actual	FY16 Revised Estimate	FY17 Forecast	\$ increase	% increase
Base Resources					
State Sources: Revenues					
Individual (gross)	17,682	14,644	15,022	378	2.6%
Refund Fund Deposit	(1,768)	(1,428)	(1,502)		
Education/Human Services Funds set aside	(480)	(881)	(901)		
Net Individual Income Taxes	15,433	12,335	12,618	283	2.3%
Corporate (gross)	3,129	2,690	2,780	90	3.3%
Refund Fund Deposit	(439)	(409)	(431)		
Education/Human Services Funds set aside	(4)	(6)	(6)		
Net Corporate Income Taxes	2,686	2,275	2,343	68	3.0%
Sales Taxes	8,030	8,140	8,310	170	2.1%
Public Utility Taxes	1,006	977	958	(19)	-1.9%
All Other Sources	2,421	2,168	2,353	185	8.5%
Total State Sources: Revenues	29,576	25,895	26,582	687	2.7%
State Sources: Transfers In					
Lottery	678	692	705	13	1.9%
Riverboat Gaming Taxes	292	271	273	2	0.7%
Other Transfers	727	693	991	298	43.0%
Fund Reallocations	1,284	-	-		
Total State Sources	32,557	27,551	28,551	1,000	3.6%
Federal Sources	3,331	4,161	4,267	106	2.5%
TOTAL RESOURCES	35,888	31,712	32,818	1,106	3.5%

FY 2017 BUDGET SOLUTIONS

- The estimated FY17 “maintenance” budget – without transformations and spending controls – was expected to lead to a \$6,626 million deficit.
- After accounting for the spending reductions - the Governor acknowledged the estimated remaining difference between FY17 expenditures and FY17 revenues totaled \$3,526 million.
- Governor Rauner has proposed two paths to address this:
 - Working Together – enact structural reforms and changes, and then the Governor would support additional revenues, or
 - Executive Management – enact the Unbalanced Budget Response Act, giving the Governor the tools to reduce spending and reallocate fund balances.

Either plan, if enacted, would meet Illinois’ constitutional requirement for a balanced budget.

State of Illinois Governor's Office of Management and Budget General Funds Financial Walk Down				
\$ millions	2015	Estimated 2016	Maintenance 2017	2017
Base Resources				
State Sources	\$29,576	\$25,895	\$26,382	\$26,582
Transfers In	2,981	1,656	1,694	1,969
Total State Sources	32,557	27,551	28,076	28,551
Federal Sources	3,331	4,161	4,267	4,267
TOTAL RESOURCES	\$35,888	\$31,712	\$32,343	\$32,818
Total Operating Budget	\$30,775	\$31,469	\$33,672	\$31,486
Statutory Transfers Out (including interfund borrowing repayment) ¹	2,489	2,486	2,927	2,488
Debt Service: Capital & Pension Bonds	2,094	2,129	2,370	2,370
Total Transfers	\$4,583	\$4,615	\$5,297	\$4,858
TOTAL EXPENDITURES	\$35,358	\$36,084	\$38,969	\$36,344
Interfund borrowing and IOC Adjustments ²	501	N/A	N/A	N/A
Working Together or Executive Management	N/A	N/A	N/A	3,526
GENERAL FUND SURPLUS (DEFICIT)	\$1,031	(\$4,372)	(\$6,626)	\$0

¹ The Governor proposes paying back only \$15 of the \$454 million interfund borrowed in FY15.

² In FY15, Illinois interfund borrowed \$454 million that are not considered base revenues. IOC adjustments reflect budgetary adjustments in Traditional Budgetary Financial Report. These are only known when the TBFR is released.

FY 2017 ESTIMATED BUDGET RESULTS

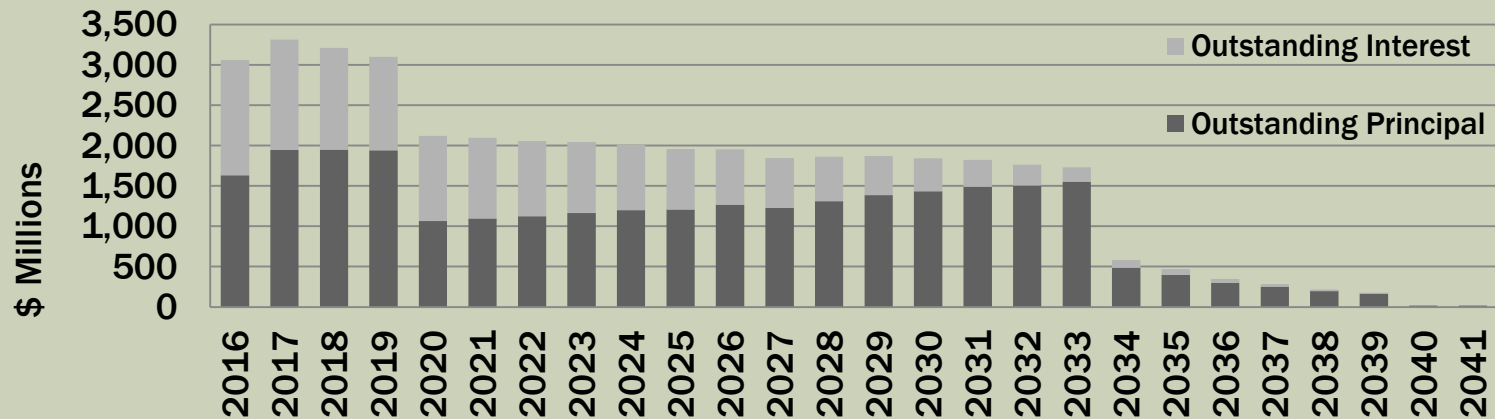
- Under either Working Together or Executive Management, the FY 2017 General Funds budget will be balanced.
- However, Illinois will still carry a significant budgetary basis deficit and backlog of bills.
- The Governor is willing to work with the legislature on different options to reduce these liabilities, including looking at financing options to address a portion of the backlog.

GENERAL OBLIGATION AND BUILD ILLINOIS BOND PROGRAMS



GENERAL OBLIGATION BONDS

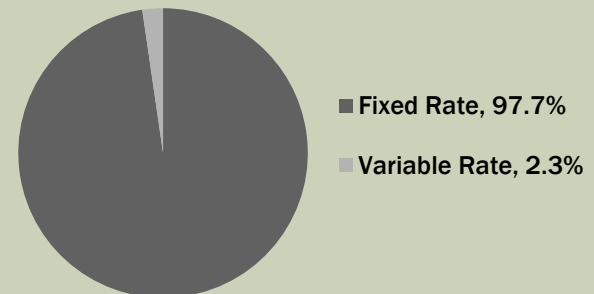
General Obligation: Fiscal Year Debt Service*



Par Outstanding

Capital Improvement Bonds	\$14,624,903,452
Pension Bonds	\$12,700,000,000
Total	\$27,324,903,452

Debt Mix



* Current as of March 31, 2016.

SECURITY FOR STATE GENERAL OBLIGATION BONDS

Security

- The full faith and credit of the State is pledged for the punctual payment of principal and interest under the Illinois General Obligation Bond Act
 - The State can draw from all State funds in the State Treasury that are not restricted by law to another use if needed to pay debt service on GO bonds

Flow of Funds

- 1/12th of the next principal payment and 1/6th of the next interest payment are set aside every month in the GOBRI Fund

Appropriation of Funds

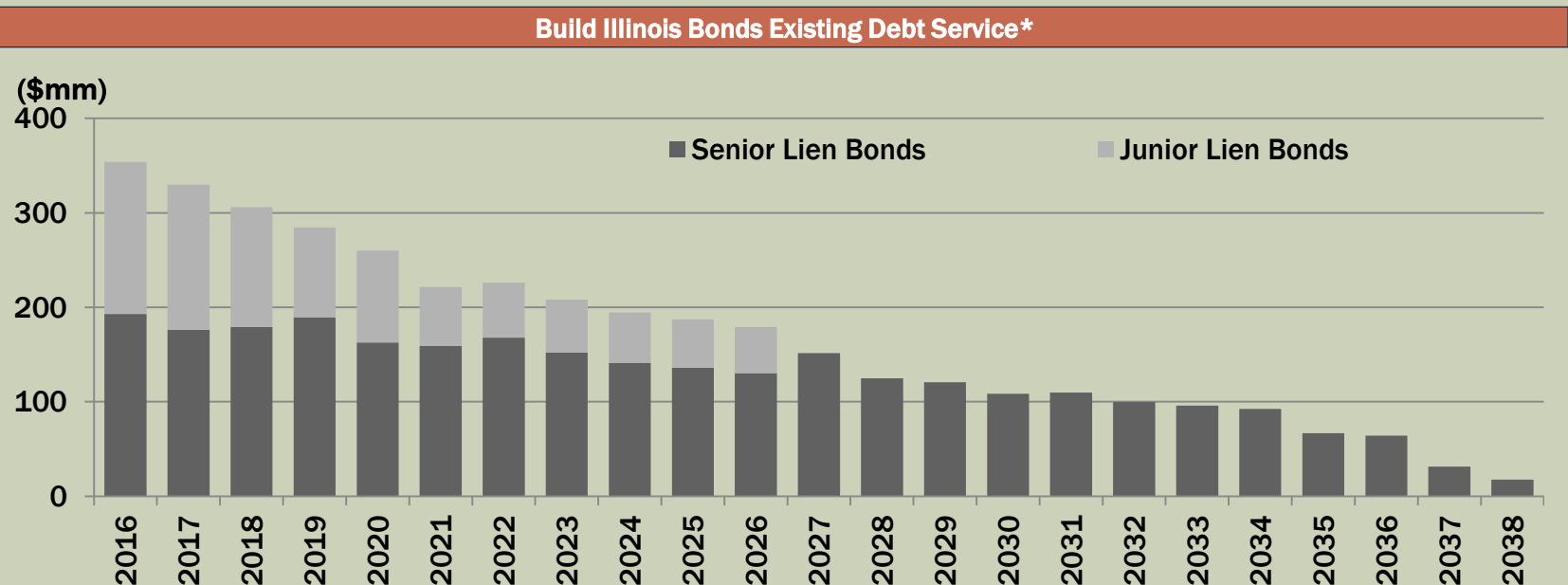
- The Bond Act requires the Governor to include an appropriation in each annual budget of moneys in an amount necessary to pay all principal and interest due
- The Bond Act itself constitutes an irrevocable and continuing appropriation of all amounts necessary to pay principal and interest
- Funds for principal and interest on all outstanding GO Bonds may be paid even in the absence of a State budget

Additional Protection under Illinois Constitution and State laws

- State law explicitly provides bondholders the remedy to sue the State to compel payment and to satisfy the State's bond obligations
- The Illinois Constitution contains a "non-impairment" clause that prohibits action by the General Assembly that would, under contract law, impair the obligations of a contract between the State and its bondholders

BUILD ILLINOIS BONDS

- Currently outstanding is \$1.972 billion in Senior Lien bonds and \$0.777 billion in Junior Lien bonds
- Build Illinois bonds are 100% fixed rate bonds.



* Current as of March 31, 2016.

SECURITY FOR STATE BUILD ILLINOIS BONDS

CONTINUING AND IRREVOCABLE ANNUAL APPROPRIATION

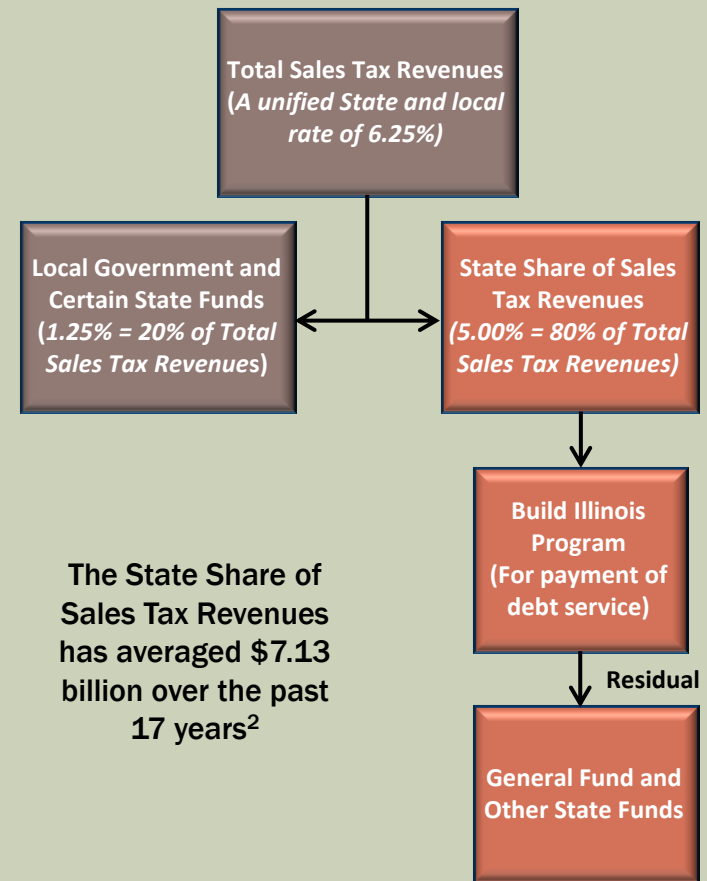
- Pursuant to the Act, the State makes an annual appropriation of an amount equal to the Required Bond Transfer. The Act constitutes an irrevocable and continuing appropriation should the General Assembly fail to make an annual appropriation.

BONDS ARE SECURED BY A FIRST AND PRIORITY PLEDGE AND LIEN

- The Bonds are secured by an irrevocable, first priority pledge of and lien on monies on deposit in the BIBRI, a separate fund in the State Treasury
- Funds in BIBRI are used solely for debt service payments
- The State Share of Sales Tax Revenues constitutes a primary source of payment for debt service on the Bonds
 - The Sales Tax Acts currently impose Sales Taxes at a unified State and local rate of 6.25%, consisting of a 5.00% State rate portion (representing 80% of collections) and a 1.25% local rate portion (representing 20% of collections)
 - The 80% portion, or the 5.00% tax, is the State Share of Sales Tax Revenues¹ and is included in Revenues subject to a first and prior claim and charge for payment of the Bonds

STRONG NON IMPAIRMENT COVENANTS

- Under the Act and the Indenture, the State irrevocably covenants and agrees with the Bondholders not to limit or alter (i) the basis on which taxes and revenues of the State are required to be collected and deposited in the Build Illinois Fund or, as the case may be, credited to and transferred from the Build Illinois Bond Account, and transferred to the Retirement and Interest Fund, (ii) the purposes of the Retirement and Interest Fund or (iii) the provisions of specified sections of the Act, so as to impair, in any of the foregoing respects, the obligations of contract incurred by the State in favor of the holders of the Bonds.



1. Excluding the 5.25% incremental portion of the Sales Taxes from the sale of candy, grooming and hygiene products, and soft drinks currently taxed at 6.25%, as increased from the pre-September 1, 2009, rate of 1.00%, which incremental portion is deposited into the Capital Projects Fund for the payment of Bonds, including the Series of April 2016 Bonds, issued pursuant to the Capital Projects Fund Legislation. Also excluded are receipts from sales of sorbents, which are deposited into the Clean Air Act Permit Fund and \$6 million which is deposited annually into the State Crime Laboratory Fund.

2. Source: Preliminary Official Statement for fiscal years 1999-2016.

CONTACTS

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